

Internal Audit's Top 7 Risks

for the Remainder
of 2021



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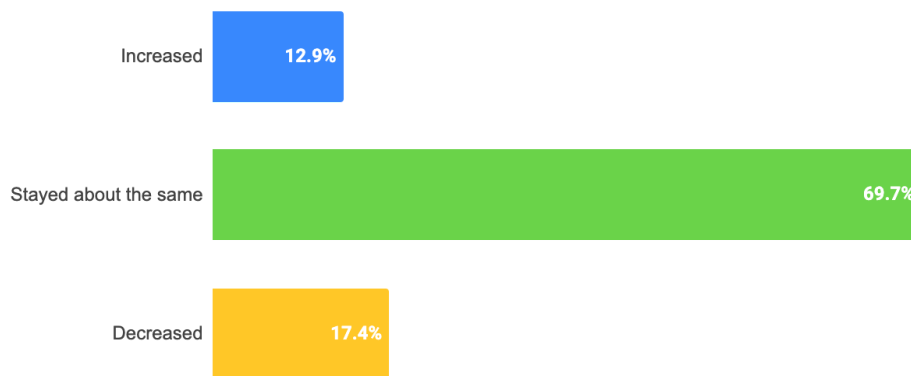
Introduction

As internal audit slowly emerges from the long, dark winter of COVID-19, a recent survey of Chief Audit Executives performed by AuditBoard has revealed two timely and compelling observations. First, internal audit's overall resources remained mostly stable throughout the period of disruption. Second, internal auditors are prioritizing their resources to address cybersecurity and other critical risks confronting their organizations to a degree that has never before been seen. In this report, we will explore the top seven critical risks auditors are honing in on for the remainder of 2021, as well as how auditors can begin to confront these risks strategically and effectively.

A Positive Forecast for Internal Audit Resources

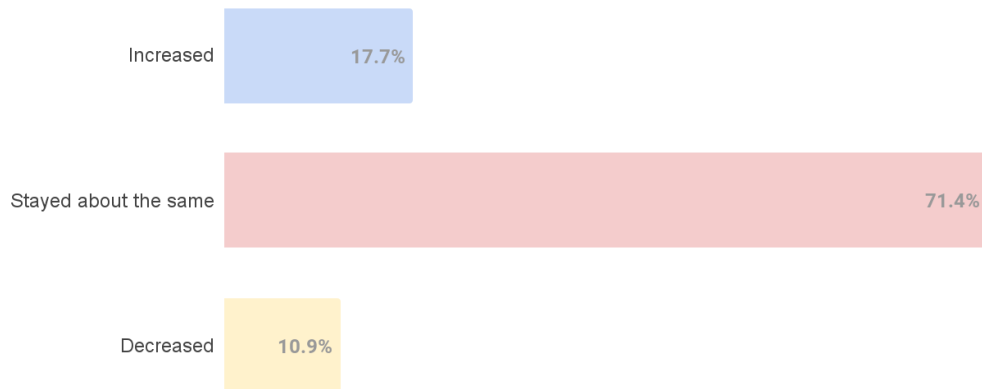
Despite widespread speculation throughout 2020 that the pandemic crisis would negatively impact internal audit's resources, internal audit functions have emerged in relatively healthy shape. A June 2021 AuditBoard survey of almost 200 Chief Audit Executives across various sectors in North America revealed the majority of audit department budgets stayed about the same over the past year, while only 17% experienced budget decreases. Responses regarding staffing were even more encouraging. Only 11% of respondents reported staffing reductions over the past 12 months, while 18% reported their staffing levels had actually increased over the same period. The remaining 71% are continuing to function at pre-COVID staffing levels.

What changes have you seen around budget in the past 12 months?



Source: AuditBoard Poll, June 2021

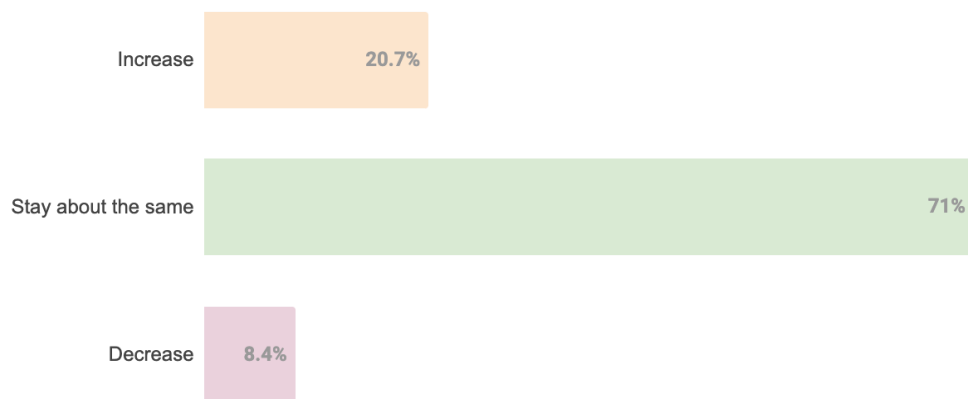
What changes have you seen in staffing in the past 12 months?



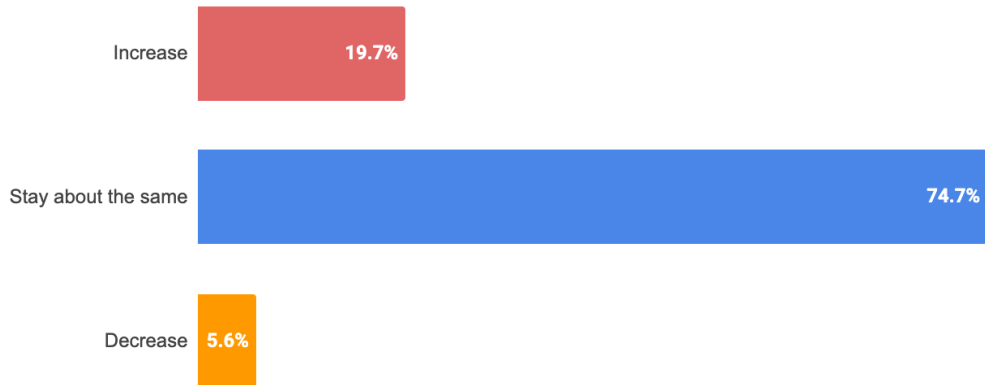
Source: AuditBoard Poll, June 2021

Looking ahead, the picture is even brighter. 21% of CAEs anticipate their budgets will increase in the next 12 months, while only 8% anticipate a decline. Similarly, 20% of CAEs project increased staffing over the next 12 months while less than 6% expect decreased headcounts in their internal audit departments.

What changes do you expect to see around budget in the next 12 months?



What changes do you expect to see around staffing in the next 12 months?



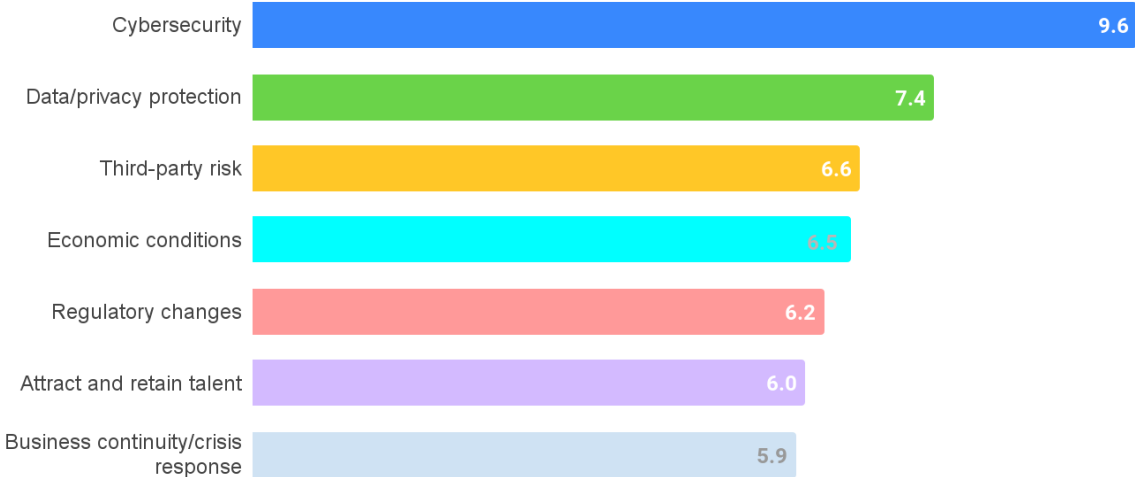
Source: AuditBoard Poll, June 2021

As encouraging as this resource outlook is, astute internal auditors must weigh it against the rapid emergence of new risks and those on the horizon. A heightened regulatory environment and dramatic increases in government spending will likely add to the crowded risk portfolios of organizations across all sectors. To protect and enhance value for the organization it serves, internal audit must be vigilant in focusing on new and emerging risks. The profession will need not only increased resources to succeed in the current environment, but also a strong emphasis on agile risk management practices that enable more accurate, more intelligent, and faster responses that can help to preserve and enhance organizational value.

2021's Biggest Risks: Cybersecurity – and Everything Else

AuditBoard’s CAE survey reveals that internal audit leaders have a clear grasp of the top risks confronting businesses for the remainder of 2021. At the forefront is cybersecurity, a risk that has increased exponentially due to a series of highly publicized cyber attacks on infrastructure and other high profile targets in the first half of 2021. Data privacy risks and third-party risks are also top priorities as cyber criminals and others have exposed data vulnerabilities. In addition, post-pandemic workforce turnover and rapid digitization is heightening talent risk for organizations in all sectors. Concurrently, organizations must continue to manage supply chain risks that contributed to pandemic-induced disruption and compliance risks that are emerging in a heightened legislative and regulatory environment. Let’s take a closer look at these risks.

Internal audit's top risks for the second half of 2021



Weighted average on a scale of 10

1. Cybersecurity Threats: 42% rated highest priority risk; 92% rated in top 5.

Cybersecurity risks are certainly not new. In fact, this risk has steadily increased over the past decade. Yet, while cybersecurity breaches have been part of the risk landscape for years, the past year has brought a dramatic spike in cyber attacks across the world, with a notable [150%](#) increase in ransomware attacks in 2020 compared to 2019. The first half of 2021 has witnessed even more brazen cyber breaches including the ransomware attack on [JBS](#), the world's largest meat supplier, the \$4.4 million [Colonial Pipeline](#) ransomware attack, the cyber attack on the [Irish state's](#) health systems, and even the [Houston Rockets](#) sports franchise.

For years, internal auditors were somewhat intimidated by cybersecurity risks, but events of the past year have driven home the urgency of this risk. 92% of CAEs surveyed listed cybersecurity in the top 5 risks for the remainder of 2021, with 42% ranking it as the number one priority risk. In AuditBoard's survey, other than cybersecurity no other risks received even double digit ratings for the #1 risk.

Merely recognizing the threat that cybersecurity presents is not enough. Internal audit functions should swiftly revise their audit plans and coverage to align with this top risk. A [recent article](#) highlighted the inherent home field advantage that internal auditors have when facing brazen cyber attacks: "cybercriminals have to come into our house, so to speak... In the large majority of cyber assaults, the cybercriminal does not know what we have of value, where to find it in the system, or what protections we have around that most valuable data. We do and, with proper planning, can force the attackers to play the game according to our rules." Internal audit should keep this top of mind when designing data security protocols.

2. Data Privacy/Protection: 4% rated highest priority risk; 69% rated in top 5.

Data privacy risk goes hand in hand with cyber risk, as evidenced by nearly 70% of survey respondents who ranked data privacy and protection in the top five risks for 2021. Not only can a

[data breach](#) expose the names, IDs, passwords, and debit/credit card information of individuals (consumers, customers, and employees), it can also shut individuals – and sometimes entire organizations – out of their own accounts and data, posing a major operational risk to the organization.

While there are various acceptable information security frameworks that can help guide your information security architecture, performing an assurance gap assessment and building a common control set aligned with your key IT risks are two exercises that can help to optimize coverage.

3. Third-party Risk Management: 4% rated highest priority risk; 52% rated in top 5.

While a business may be able to secure its own systems to minimize cybersecurity risk, third parties are susceptible to hackers who can access their systems and potentially gain access to their partners' sensitive data and systems. A recent example is the [Mercedes-Benz data leak](#), where the private data of hundreds of customers and buyers – including their social security numbers – were reportedly made accessible on a vendor platform.

As The IIA has observed in its Practice Guide, “Auditing Third-Party Risk Management:”

“(Third party)... relationships continue to expand and evolve, introducing numerous risks that must be continuously assessed and appropriately managed by the organization to achieve desired business outcomes. In regulated industries, courts of law, and the court of public opinion, an organization cannot escape blame, including potentially severe repercussions in terms of reputation or financial penalties, if a third-party provider fails to perform as contracted or suffers its own unfortunate event or unethical practices.”

Beyond cybersecurity and data protection, third parties can present myriad other risks including reputational risk. If a contractor has a major risk management failure, such as a high-profile scandal involving social injustice, human rights, or toxic culture, the ripple effect could impact your

organization's reputation as well. Society is becoming increasingly cognizant about the interconnected environment in which we operate, which is why internal auditors are increasingly recognizing the importance of third-party risks.

As The IIA's Practice Guide emphasizes, internal auditors should be cognizant of the risks in every phase of third-party contracting. These include sourcing, due diligence, and the contract process during contract acquisition. Internal auditors also have an obligation to monitor risks throughout the life of the contract including contract termination.

4. Economic Conditions Impacting Growth: 7% rated highest priority risk; 47% rated in top 5.

Current economic conditions represent a very different scenario compared to the high unemployment rates of 2020. Recent trends including [labor shortages](#) in the hospitality and airline industries, surging [lumber prices](#), and the [global chip shortage](#) present very different risks and opportunities than those we faced a year ago. Economic conditions such as these would not appear to limit growth in terms of sales and demand. However, they may limit businesses in terms of their ability to serve demand. Without equilibrium between supply and demand, businesses will struggle to meet their growth targets and other enterprise goals.

In order to remain competitive, companies will need to get proactive and innovative in transforming their strategies and objectives while navigating the changing economic landscape. Internal audit should assess whether risks related to volatile economic conditions have been identified and adequately addressed by management – and provide related assurance, insight, and foresight to management and the board.

5. Regulatory Changes: 8% rated highest priority risk; 47% rated in top 5.

As has been long observed, legislation begets new regulations, and new regulations beget compliance risks. Due to the ripple effects of the 2020 election and the COVID-19 crisis,

businesses are confronting increasing compliance risks in the face of regulatory changes, especially those at the federal level. New political appointees are in place at the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Consumer Financial Protection Bureau (CFPB), and the the regulatory agenda of these and other agencies will likely continue to change in the months ahead.

Regulatory compliance has long enjoyed a prominent place in annual internal audit plans, and with heightened regulatory activity on the horizon, it is more important than ever for internal audit to provide assurance to management and the board that adequate compliance-related controls are being designed and maintained. In such an environment, internal auditors should also be the business's eyes and ears in ensuring the organization is scanning the horizon for emerging compliance risks.

6. Ability to Attract and Retain Talent: 6% rated highest priority risk; 47% rated in top 5.

As the economy continues to emerge from a pandemic-induced coma, the ability to attract and retain talent is becoming increasingly difficult across industries. According to the Pew Research Center, in 2020 [Millennials](#) overtook Baby Boomers as America's largest generation. Coupled with the fact that [boomers](#) are retiring in higher numbers than in previous years, workforces are seeing the beginnings of a big shift in their talent bases, where more mid to senior level roles are opening up. Yet, there is also concern regarding the number of workers who are quitting their jobs, a phenomenon referred to as the [Great Resignation](#).

The most competitive businesses will focus on investing in their talent programs by seeking to upgrade workers' skills to address skill gaps, as well as hiring for [in-demand skills](#) including creativity, analytical thinking, and flexibility. If ineffectively managed talent-related risks can leave a company dead in the water, then internal audit should be prepared to provide assurance on whether management is adequately assessing and addressing this critical risk.

7. Business Continuity and Crisis Response: 4% rated highest priority risk; 37% rated in top 5.

If the past year has taught us anything about business resilience, it has been how critical crisis response and business continuity plans are in an era where the velocity of risks is unprecedented. Though 2020 (and hopefully the worst of COVID-19) is behind us, the future will almost certainly present us with more extraordinarily disruptive health, economic, and environmental crises. Across industries, business continuity plans underwent a live, prolonged stress test in 2020; now is the time to apply the valuable information gleaned from those tests to strengthen operational resilience ahead of the next business interruption.

While internal auditors should not be the ones to develop business continuity plans for their organizations, business continuity and crisis response must certainly be on their radar. Assessing the adequacy of business continuity planning and crisis response plans now may well reduce the likelihood of hearing “where were the internal auditors?” in the future.

Conclusion

Over the past 18 months, the world has experienced an unprecedented tandem of health and economic crises that have presented some organizations with existential risks while others have enjoyed expanded opportunities. While fending off the catastrophic impacts of the pandemic, the world has simultaneously been rocked by social upheaval, geopolitical tensions, and a sharp rise in cybersecurity attacks. The AuditBoard survey presents encouraging evidence that internal auditors are clearly attuned to the risk environment in which they are operating. The seven most highly-rated risks from the survey reflect a heightened awareness on the part of internal auditors on the potential of these risks to damage or destroy value for the organizations they serve.

While internal auditors are not responsible for managing these top seven risks for the remainder of 2021, they are responsible for providing assurance, insight, and even foresight regarding the effectiveness of overall risk management efforts. Internal audit's ability to continuously and accurately assess and report on the organization's top risks as they change is key to protecting and enhancing organizational value. At AuditBoard, we are dedicated to monitoring the profession's progress and to offer timely and relevant insights and advice for internal auditors and those they serve.

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About AuditBoard

AuditBoard transforms how audit, risk, and compliance professionals manage today's dynamic risk landscape with a modern, connected platform that engages the front lines, surfaces the risks that matter, and drives better strategic decision-making. More than 25% of the Fortune 500 leverage AuditBoard to move their businesses forward with greater clarity and agility. AuditBoard is top-rated in audit management and GRC software on G2, and was recently ranked as one of the 100 fastest-growing technology companies in North America by Deloitte.

For more information: www.auditboard.com